

Message Text

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ACTION EA-12

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SUBJECT: SUARA KARYA EDITORIAL ON LNG

1. THE FULL TEXT OF AN EDITORIAL ENTITLED: "THE QUESTION
OF LNG FOR THE U.S., DEADLOCKED?" PUBLISHED IN THE AUGUST 29
ISSUE OF THE GOVERNMENT-SUPPORTED SUARA KARYA IS REPORTED
IN FULL BELOW, SINCE WE BELIEVE IT WAS INSPIRED BY HIGH
LEVELS OF THE GOI.

2. BEGIN TEXT:

DURING HIS VISIT TO INDONESIA LAST MAY, U.S. VICE
PRESIDENT WALTER MONDALE DISCUSSED VARIOUS IMPORTANT ISSUES
BETWEEN INDONESIA AND THE U.S. ONE OF THEM WAS THE
NATURAL GAS PROJECT.

IN THESE TALKS THE SECOND RANKING MAN IN THE U.S. SAID
THAT THE U.S. ENERGY DEPARTMENT HAD AGREED ON A PRICE
FORMULA IN CONNECTION WITH THE NATURAL GAS PROJECT.

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MONDALE ADMITTED THAT PREVIOUSLY THE ENERGY DEPARTMENT
AND U.S. OFFICIALS HAD FOUND IT DIFFICULT TO AGREE ON THE
PRICE LEVEL. BUT NOW THERE WAS AGREEMENT.

IT WAS SUCH A CLEAR AND DEFINITE STATEMENT FROM THE
SECOND MAN IN THE U.S. THAT CAUSED THE ISSUANCE OF A
PRESIDENTIAL INSTRUCTION TO THE MINISTER OF MINING AND

ENERGY, SUBROTO, IN THE SAME MONTH OF MAY TO FORM A TECHNICAL COMMITTEE TO TAKE FURTHER ACTION REGARDING THE CALCULATION OF THE LNG PRICE ESCALATOR TO DETERMINE THE EXACT LNG SELLING PRICE TO THE U.S.

WHAT IS MEANT BY THE LNG PRICE ESCALATOR IS THAT THE LNG PRICE IS NOT FIXED BUT CHANGES ACCORDING TO DEVELOPMENTS IN INFLATION, THE PRICE OF OTHER ENERGY SOURCES, AND SO ON. LAST MONTH INDONESIA SUBMITTED ITS LOWEST ESCALATION FORMULA RELATED TO INFLATIONARY DEVELOPMENTS IN THE U.S. ITSELF AND DEVELOPMENTS IN THE PRICE OF INDONESIA'S CRUDE OIL. WITH THAT FORMULA, THE SALE OF INDONESIA'S LNG TO THE U.S. IS AT A (PRICE) LEVEL WHICH IT IS IMPOSSIBLE FOR INDONESIA TO DECREASE FURTHER.

YET, THE U.S., ACCORDING TO MINISTER SUBROTO, IS RATHER RELUCTANT TO ACCEPT INDONESIA'S FORMULA FOR TWO REASONS. NAMELY, THERE IS STILL A BIG RESERVE OF COAL IN THE U.S. AS AN ENERGY SOURCE, AND IT IS STRONGLY ASSUMED THAT THERE IS LARGE NATURAL GAS POTENTIAL IN ALBERTA PROVINCE, CANADA.

IF WHAT MINISTER SUBROTO SAID IS TRULY THE REASON FOR U.S. RELUCTANCE TO ACCEPT INDONESIA'S LNG, THEN IT IS DIFFICULT TO AVOID THE IMPRESSION THAT THE U.S., LIMITED OFFICIAL USE

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USUALLY REGARDED AS ONE OF THE COUNTRIES THAT ARE MOST "MANLY" IN KEEPING BUSINESS PROMISES, NOW APPEARS TO BE EXPERIENCING A REVERSAL. FOR NO LESS THAN THE SECOND RANKING MAN IN THE U.S. HIMSELF INFORMED PRESIDENT SUHARTO THAT THE U.S. ENERGY DEPARTMENT HAD AGREED TO INDONESIA'S LNG PRICE FORMULA.

MONDALE'S STATEMENT WAS LATER REGARDED AS A MISTAKE, AS QUOTED BY THE ASIAN WALL STREET JOURNAL IN ITS ISSUE OF AUGUST 23.

BUT CONSIDERING THE DECISION OF THE CARTER GOVERNMENT ON GAS IMPORTS EARLY THIS YEAR, TO REGARD MONDALE'S STATEMENT AS A MISTAKE CAN RAISE THE QUESTION WHAT ACTUALLY IS THE BACKGROUND OF U.S. THINKING ABOUT THIS MATTER.

LAST JANUARY THE U.S. ENERGY DEPARTMENT AGREED ON THE IMPORTATION OF 539 MILLION CUBIC FEET OF INDONESIAN GAS DAILY FOR 20 YEARS. SOON THEREAFTER THERE WAS AN AGREEMENT TO TREBLE GAS IMPORTS FROM ALGERIA TO A TOTAL OF 43.5 BILLION CUBIC FEET PER YEAR.

AT THE TIME THE APPROVAL WAS GIVEN FOR THE IMPORTATION
OF INDONESIAN GAS, GASN IT HAD BEEN CALCULATED THAT THE
INDONESIAN GAS WAS SLIGHTLY HIGHER IN PRICE THAN DOMESTIC
GAS. YET, THE APPROVAL WAS GIVEN BECAUSE THE U.S. DID
NOT WISH TO RELY ONLY ON ALGERIA FOR ITS GAS IMPORT REQUIREMENTS.

CONSIDERING THAT THE DECISION HAD BEEN MADE LONG BEFORE
MONDALE PROVIDED THE INFORMATION, IT IS DIFFICULT
TO BELIEVE THAT WHAT MONDALE TOLD PRESIDENT SUHARTO WAS A MISTAKE.

IF THAT IS REALLY THE CASE, IT IS APPROPRIATE TO ASK WHAT
ACTUALLY IS THE INTENTION AND WHAT IS THE BACKGROUND OF THE
U.S. ATTITUDE WHICH RIGHTLY OR WRONGLY GIVES THE IMPRESSION
OF RECKLESSLY DISAVOWING WHAT IT HAD PROMISED EARLIER.
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LET THE U.S. KEEP THE ANSWER TO THIS QUESTION TO ITSELF.

WHATEVER THE CASE, THIS BITTER EXPERIENCE SHOULD BE A
LESSON IN CONDUCTING BUSINESS NEGOTIATIONS IN THE FUTURE.
GARDNER

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